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07~~CONFIDENTIAL~~CENTRAL INTELLIGENCE GROUP  
INTELLIGENCE REPORT

COUNTRY China

DATE: 25X1A

SUBJECT Economic Information: Smuggling Activities of  
Chinese Military Personnel, Tsingtao

INFO. [REDACTED]

DIST. 27 November 1946

25X1A

PAGES 1

ORIGIN [REDACTED]

SUPPLEMENT

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1. In order to avoid armed conflicts, the Custom House in Tsingtao has recently been compelled to ignore cases of smuggling, the majority of which involve Chinese military personnel. A smuggling organization, composed of several prominent people in town, is also involved in these operations. Military men send troops to protect the smuggling activities while naval forces furnish the boats.
2. According to an investigation, cotton yarn which is greatly needed in Tsingtao and export of which is forbidden has been one product which can be profitably smuggled. Large quantities have been smuggled to Korea where the yarn is exchanged for cheap Korean sea products and American-made luxuries which are profitable to the smugglers but do not meet the needs of the local people.
3. The amount of revenue lost by smuggling is not fatal to the Customs, but the smuggling itself undermines the national foreign trade policy. By exempting export duty and elevating the foreign exchange rate, the Government tends to encourage export, but it does not encourage export for exchange of luxury items. What China needs is machinery for industrial production.
4. Cotton yarn is not the only article used in this smuggling operation. Many goods, especially controlled articles, are acceptable to smugglers. For instance, on 18 July, an LST of the Chinese Navy, named Chung Ching, smuggled dyes to Shanghai. One barrel of dye in Tsingtao costs CNC\$1,300,000, while in Shanghai it costs CNC\$1,700,000. When the LST returned, it carried cigarette papers. In Shanghai, one roll is priced at CNC\$80,000, and in Tsingtao, at CNC\$180,000. On 18 August a boat, named Ch'i Mei, owned and operated by the Chinese Merchant's Steamship Navigation Company, arrived in Tsingtao. Approximately one truck load of smuggled commodities was unloaded from the ship and transported away from the pier by truck and escorted by the guards of the Second Garrison Brigade. The Custom House wanted to inspect the trucks, but the soldiers had their guns loaded and ready to fire in case the Custom House insisted; hence, they were able to depart, openly taking the smuggled goods with them.

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Next Review Date: 2025X1A9a

Document No.

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DDA Memo, 4 Apr 77

Auth: DDA REG. 77/1763

Date: 22 MAR 1978 By: 011

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